the SUNDAY TIMES

Sunday, July 16, 2023

BUSINESS TIMES

Import restrictions implemented without consulting exporters

By Raj Moorthy

While Sri Lanka is gradually easing the import restrictions on several essential items which were implemented during the economic crisis, concerns have been raised that restrictions on imports were imposed by the government without consulting the export sector.

An official from the Export Development Board (EDB) raised the matter during the publication release and discussion on ‘Import controls in Sri Lanka: Political Preference and Incentive Distortions’ published by the Institute of Policy Studies (IPS) last Wednesday.

The EDB officer stressed, “Import restrictions on essential items were implemented without consulting the exporters in the country. Some of the raw materials required for the manufacture and value addition of the exported products were restricted.” This resulted in a huge impact to the exporters who were earning foreign exchange to the country, she added.

In response to the economic crisis, Sri Lanka implemented import controls that expanded significantly by the end of 2022, accounting for approximately 30 per cent of the country’s total imports. The controls affected various categories, including consumption goods (46 per cent), intermediate goods (31 per cent), and capital goods (24 per cent).

The report authored by the IPS researchers Dr. Asanka Wijesinghe, Chathurrdhika Yogarajah and Nilupulee Rathnayake recommends for prioritising import control revisions. The deciding factors may be influenced by lobbying from industries reliant on restricted imports and feedback from industry and consumers. Analysis suggests that revisions appear to prioritise intermediate and exempted food products, reflecting a policy preference for exempting intermediate imports.

The report said that to foster innovation and enable participation in global value chains, it is economically sensible to phase out import controls on intermediate goods. However, revisions should also target consumption goods, including food. Import controls inflate domestic prices, leading to the production of less complex consumer goods and food items for domestic consumption. This diverts resources away from export industries, impeding the country’s growth in the vital export sector.

Revisiting import controls on food products is particularly important due to their impact on urban and suburban households. These controls exacerbate food costs and shortages, burdening households, especially those with low incomes. More damagingly, the distortion in incentives (the import-substitution incentive structure) perpetuates labour movement and retention in the agricultural sector.

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